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Order 2002-1-4

Served: January 16, 2002



**UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.**

Issued by the Department of Transportation  
on the 11th day of January, 2002

**INTRA-ALASKA BUSH AND MAINLINE  
SERVICE MAIL RATES**

**Dockets OST-95-405-108  
and  
OST-95-429-160**

**ORDER**

**Summary**

By this order the Department makes final the revised reporting requirements on an experimental basis as discussed in order to Show Cause 2001-9-10. Also, the order freezes the bush rate, except for quarterly adjustments in fuel, subject to monitoring by the Department, until the review of the newly reported data can be concluded.

**Background**

By Order 2001-9-10 the Department tentatively proposed that all the bush carriers submit two additional reports: T-100 information on special diskettes supplied to them and a revised Schedule F-2. The information was to be supplied on a temporary, experimental basis, in order to determine whether the current bush mail rate is accurate.<sup>1</sup> Carriers would continue reporting the old data until it could be determined that they were reliably reporting the new information. We received objections to the order from Larry's Flying Service, primarily on the burden our action would impose, and from the Consolidated Carriers on a number of matters. That order requested comments on seven specific reporting issues and the amount of regulatory burden associated with them, as follows.

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<sup>1</sup> As discussed in that order, the current update methodology does not account for changes in aircraft size, speed, or load factors for the linehaul. Moreover, the limited information available to us indicates that aircraft size has increased significantly.

**1. Should the carriers, bush and mainline, fully convert to the T-100 reporting system, as detailed on reporting diskettes supplied to the carriers and the Postal Service?**

An index developed by the Postal Service showed that from 1986, when the base rate was established, to 1999, the average bush aircraft had increased in size by 27%, from 3.47 to 4.42 as measured by an index for aircraft weight from Jane's All the World's Aircraft. Nevertheless, the current update methodology based on unweighted block hours implicitly assumes that aircraft size does not change over time.<sup>2</sup> The Department's tentative position in the show-cause order was that the proposed T-100 information was necessary because no bush carrier reports system Revenue Ton Miles (RTMs) or Available Ton Miles (ATMs), and those data are needed to determine systematically to what extent aircraft have increased in size. In view of other factors possibly counteracting those changes in size of the aircraft, such as speed, load factor, and mix of aircraft carrying the mail, and because of some minor problems in the index relied on by the Postal Service, we proposed to request additional information from the carriers on the T-100 that would confirm or refute that result. However, in recognition that the current update does not account for changes in aircraft size, we stated our intent to freeze the rate at the current level while we conducted our review.

The Consolidated Carriers object that if the Department

“thinks that the current ratemaking process is inadequate, it can open the mail rate and proceed to discovery. The essential question that the Department must answer before imposing new requirements is whether: 1. The existing ratemaking procedures are inadequate, and 2. Any change is needed to correct any deficiencies found.” (Page 4)

The Consolidated Carriers go on to assert that the

“Postal Service has made significant changes in its requirements of air carriers, which have increased costs of handling mail....The carriers assert that the base rate's assumptions are long obsolete due to changes by the Postal Service. No review would be complete without a complete revisiting of the basic assumptions of cost allocation contained in the base rate.” (Pages 8 and 9)

The Consolidated Carriers do not properly distinguish between establishing a base rate, where the underlying costs of moving the mail are determined and all issues are open, and the annual updates to that base rate. The updates are designed to extend the base rates by indexing underlying costs determined in the base rate investigation to average unit costs per block hour for linehaul costs and per weighted departure for terminal costs. The updates are not designed to reconsider the assumptions of the base rate but, rather, to obviate the burden of repeatedly conducting lengthy base rate investigations. Order 2001-9-10 tentatively

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<sup>2</sup> Unlike the linehaul portion, the terminal portion of the update tracks carrier costs by weighted departures, and thereby takes into account changes in aircraft size.

determined that the current update methodology could be significantly improved without going through a lengthy base-rate investigation.

In response, the Consolidated Carriers argue that assumptions in the 1986 base rate investigation are no longer valid, without discussing the update methodology *per se*. They claim that to make changes in the rate update methodology we must open a rate investigation. We disagree. The Consolidated Carriers provide no statistical evidence to substantiate their charge that 1986 base-rate assumptions are invalid. Moreover, the Department has at various times made very significant changes to the update methodology without initiating a base rate investigation. Most recently, Order 2000-11-9 adjusted the update for the mainline carriers by weighting each carrier's costs by the amount of mail it transported by aircraft type.

The Consolidated Carrier's answer, in fact, lends credence to the argument that the update methodology itself should be reexamined. They maintain (pages 5 and 6) that the current rate is not overstated, notwithstanding that larger aircraft have been added to the bush fleet, because those larger, lower-cost-per-ton-mile aircraft are almost exclusively used in passenger service in major bush markets, and so are not pertinent to setting mail rates. However, the current update methodology accords such aircraft equal weight, and this very issue, of mail having a greater tendency to move on some aircraft types than others, was addressed by a major change in the mainline carriers' update methodology in Order 2000-11-9.

The construction of the base rate accounted for the different sizes of aircraft and the extent to which they were used exclusively in passenger service and had lower costs per ton-mile of capacity. The current update methodology does not. Opening the base rate is a separate and distinct issue from changing the update methodology. It appears to be the Consolidated Carriers' position that the base rate is flawed and should be corrected before attempting to improve the update methodology. It is our position that the results of this review will allow us to evaluate whether the update methodology is flawed, and to correct it as appropriate.

The Consolidated Carriers are concerned that our review will focus on narrow issues working to reduce the rate to the exclusion of fundamental issues that would work to increase the rate. However, if the review determines that the current rate is significantly misstated, the Consolidated Carriers will then be able to raise those fundamental issues and we will consider them with the advantage of having more detailed information available.

**2. Assuming the T-100 reporting is begun, how should the new update indices be phased in?**

Order 2001-9-10 tentatively proposed that the new data be submitted 30 days after the issuance of a final order. The Consolidated Carriers make no argument as to how or when the update should be phased in, other than to argue that it is inappropriate for the Department to change updating techniques between base rate investigations.

Larry's Flying Service was opposed to only 30 days' lead-time and was anticipating a six months' lead-time, as some carriers had requested in their response to the Notice dated January 22, 2001. Larry's was also concerned about the need for training for the new system.

We note that the diskettes were initially distributed to the carriers on May 9, 2000, about a year-and-a-half ago. The notice of proposed rulemaking issued on January 22, 2001, officially stated that we were considering requiring the use of the diskettes, and most recently Order 2001-9-10 reiterated that position. We do recognize the limited resources available to many of the bush carriers. Nevertheless, the carriers received forewarning about the possible change. We will require the carriers to begin reporting the T-100 on a monthly basis beginning with January data. Because it is not required that data be filed until 30 days after the end of each month, or March 1, this will afford sufficient time for adjustment. Also, the upcoming months are the off-peak period for most carriers in Alaska, and this should ease their burden. We note that some carriers are already using the diskettes. We will again provide hands-on training (we conducted a training session on this subject in Alaska on May 8, 2000) after the issuance of this order and before the first reports are due to be filed. In any event, the diskettes are designed to easily allow carriers to directly input the data. That process of manually inputting data can be done immediately without any further software development. The Department must strike a balance between its needs to assure that the Postal Service rates are neither too high nor too low, and any reporting burden on the carriers. We find this timeline to be reasonable.

**3. How burdensome would it be for bush and mainline carriers to submit past period data on the T-100 to speed up the review process?**

No party favored the submission of past-period data. In recognition of the carriers' scarce resources, we will not require submission of past-period data.

**4. Should the T-100 data be reported on a continuing basis, or *ad hoc*?**

In response to our Notice, no party favored the reporting of the T-100 on an *ad hoc*, one-time basis. In response to the show-cause, the Consolidated Carriers stated that

“Whatever method of reporting is truly necessary for accurate ratemaking, the Department should adopt it on a consistent and continuing basis.” (Page 8)

We stated in Order 2001-9-10, page 7, that “we will continue to review this issue during the evaluation period [to determine] if the [T-100] report is” required on a temporary basis. We continue to believe that to be the prudent course. We recognize, however, that the extra burden it would entail to start and stop the reporting, only to someday resume such reporting, argues against short-term reporting requirements.

**5. Which level of detailed review of the mail rates should be used?**

Some parties favor the use of ATMs and tons enplaned, others the use of RTMs and weighted departures. As discussed in the show-cause order, it would be premature to decide this issue at this time before we have sufficient data before us. The Postal Service argues that there should be a full discussion among all the parties before deciding to change the indices, and we agree. We will meet with the parties before we finalize our new update procedures.

**6. Should we establish an interim update methodology?**

No parties supported this option. We will not do so, therefore, based on this record.

**7. Should we require more detailed reporting of financial information: costs, revenues, and assets and liabilities? (The T-100 information is strictly traffic information, not financial.)**

The show-cause order tentatively proposed that the bush carriers report a slightly modified Schedule F-2, separately breaking out hull, liability, and third party insurance, and also transport-related expenses, and eliminating the line item for "other."

In its Answer the Consolidated Carriers noted that

"the actual changes in financial reporting requirements are minor, and certainly less than will be required to set an accurate base rate."

They note that breaking out insurance could help ensure that the higher costs associated with acts of terrorism are allocated correctly, particularly in view of industry-wide spikes in insurance costs.<sup>3</sup> They opposed separately reporting transport-related expenses, arguing that such expenses merely involve the purchase of logo-imprinted items, are not included in the totals of Schedule F-2, are of no consequence in rate setting, and in any event are eliminated from the operating expense total on Schedule F-2 by the Department's Alaska inspector in the event carriers mistakenly include them on Schedule F-2.

Transport-related expenses can be for many items besides logo-imprinted sales, and may be significant, such as wet-leased equipment. It is also important that DOT reporting systems show consistent, accurate totals. As stated in Order 2001-9-10, the proposed itemizing of the transport-related expenses on Schedule F-2 would make Total Operating Expense on that schedule consistent with Schedule F-1.

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<sup>3</sup> We have said that we will monitor the carriers' reports. If a significant increase in costs is detected, whether in response to the terrorism incident or something else, we will make an adjustment as appropriate.

Because the additional reporting is submitted quarterly, we will require the revised Schedule F-2 to be reported beginning with the quarter ended March 31, 2002, to be parallel with the T-100 data.

### **Reporting Burden**

The Consolidated Carriers argue that

“However simple the T-100 reporting program diskettes are, they are entirely duplicative of existing carrier statistical and accounting programs....Requiring the use of the T-100 programs, and the use of the diskettes will require double-entry of all data.” (Pages 2 and 3.)

The Consolidated Carriers make no estimate of the time or expense that would be needed to submit the diskettes.

In addition to their concerns about the timing of the requirement to send in the T-100 data, Larry's Flying Service estimated that it would require significant startup costs as well as recurrent reporting costs. Larry's Flying Service makes a detailed estimate, projecting that it would, in total, cost them \$25,000 additional each year to switch to the T-100. There are about 35 bush mail carriers in Alaska. Assuming Larry's estimate is representative for all bush carriers, <sup>4</sup> additional expenditures by all bush carriers would be \$875,000. In Fiscal Year 2000 the Postal Service expended \$62 million dollars for Alaska bush mail carriage. Linehaul costs and aircraft size are most directly at issue here, and they reflect approximately half of the total expenditures, or \$31 million a year. The Postal Service estimates that aircraft have increased in size by 27% since 1986. If there is no counteracting factor that the T-100 report would pick up, then it appears that the Postal Service is overpaying the carriers by approximately \$8 million per year. Clarifying this matter would therefore appear necessary and the additional reporting burden prudent and reasonable. Further, just as all legitimate costs of doing business are included in the rate-update methodology, so too would an allocable portion of those costs be included and the carriers ultimately compensated for them.

### **ACCORDINGLY,**

1. We direct all carriers of bush mail in Alaska to report the following information:
  - a. Monthly T-100 information on the diskettes that have been supplied them;
  - b. Revised Schedule F-2 information as outlined in Appendix A to Order 2001-9-10; and

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<sup>4</sup> Larry's is neither the biggest nor the smallest bush carrier.

- c. The current Form 298-C until we can determine that they are reliably reporting the T-100 information;
2. We will maintain the current bush mail rate until the review is complete, except for quarterly changes in the fuel element;
3. These dockets will remain open until further order of the Department; and
4. We shall serve this order upon parties on the Service List for these Dockets.

By:

**READ C. VAN de WATER**  
Assistant Secretary for Aviation  
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(SEAL)

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